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FOREIGN GOLD & EXCHANGE RESERVES CURRENT TRENDS

International Monetary and Trade Research Branch □ Foreign Development and Trade Division

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U.S. Department of Agriculture □ Economic Research Service

RESERVES, TRADE, AND ECONOMIC GROWTH

by Carolee Santmyer

GLOBAL REVIEW

The value difference between world trade and total international reserves intensified in 1968. Reserves as a percentage of imports (the liquidity ratio) settled to 32 percent in December 1968 from 35 percent at the close of 1967 as the advance in imports topped the increase in reserves, both absolutely and in percentage terms (see table 1). World reserves reached \$76.3 billion by year-end 1968, up \$2.8 billion from the previous year's level and \$4.4 billion above the comparable 1966 figure.

World exports increased 11.5 percent between 1967 and 1968 or more than twice the 1966 to 1967 growth rate (see table 2). Valued at \$212.5 billion, total exports in 1968 were \$12.3 billion under the year's total import figure. World imports, which had grown by 5.2 percent in 1967, rose an additional 11.2 percent last year to total \$224.8 billion. 1/

Changes in the International Reserve Makeup

Total international reserves (composed of reserve positions in the International Monetary Fund, foreign exchange holdings, and gold) amounted to approximately \$76.3 billion on December 31, 1968.

The reserve position of all member countries in the Fund improved by over \$0.7 billion during 1968 to total more than \$6.5 billion at year's end. During that period, foreign exchange holdings rose by almost \$3.0 billion, reaching over \$30.8 billion by the end of 1968. In contrast, there was a \$0.7-billion drop in world monetary holdings of gold, indicating that the marketed production of gold fell somewhat short of world demand for nonmonetary purposes (see table 3). Most of this decline in world gold holdings reflects the \$0.6-billion decrease in country holdings.

France's domestic and international problems remained unsolved at the end of 1968 and the country's gold holdings were \$1.4 billion less than they were a year earlier. In the fourth quarter of 1968, the United States realized a net gold inflow of \$136 million; nevertheless, its total gold losses last year

1/ Theoretically, the value of total world exports should equal that of total world imports, but this does not occur due to statistical and other reasons. Differences in valuation and reporting methods--e.g., f.o.b. for exports vs. c.i.f. for imports--timing, plus trade imbalances between communist countries and members of the International Monetary Fund (IMF), give the impression that a world trade deficit exists.

Note: References to "total" world gold and reserves are exclusive of the Sino-Soviet countries and Cuba.

amounted to \$1.2 billion. Swiss gold stocks declined \$500 million from December 1967 to the end of 1968 and Canadian losses reached \$200 million.

Both the United Kingdom and Portugal increased their gold holdings by \$200 million between 1967 and 1968; Germany's stocks rose by \$300 million and Italy gained \$500 million. A \$700 million increase in South Africa's 1968 gold holdings resulted from its withholding gold from the free market in opposition to the March 1968 two tier gold pact agreed to by the free world's major countries. Under this pact the price of newly mined gold, plus gold bought or sold by individuals outside the central banking system, is determined by supply-demand conditions on the open market and does not benefit from the \$35-per-ounce official price. By withholding its bullion from the free market, South Africa hoped to encourage world gold prices to remain well above the official price. Free market conditions appear to be such that a sizable sale by the Republic would depress the free market below \$35 per ounce. In April, South Africa obtained \$66 million in U.S., Canadian, and Japanese currencies through a gold tranche drawing from the IMF. Whether this automatic drawing will be repaid in gold or in the currencies drawn remains to be seen.

Special Drawing Rights (SDR's), the new international reserve asset designed to supplement gold and increase world liquidity, still have not become a reality. By February of this year, 35 IMF members with 51 percent of the vote had ratified the amending of the IMF's articles of agreement to provide for SDR's, but approval by 67 members with 80 percent of the voting power is needed.

Price Movements

Although the total value of products exported by developed countries in 1968 rose roughly 12 percent above the 1967 figure, the prices received for these products remained relatively unchanged, according to the World Bank commodity price index. This indicates that an increase in export volume accounted for most of the value rise. Similarly, overall prices remained virtually unchanged for products imported by the developed world while their total value grew by over 12 percent. This again points to a growth in import volume.

The total value of exports by less developed countries in 1968 was close to 9 percent above the 1967 figure and the total import value rose almost 7 percent. Price indexes for these exports and imports showed a slight drop between 1967 and 1968; therefore, the volume of LDC trade increased more than indicated by the value changes.

Prices of some primary products sold by less developed countries did change substantially between 1967 and 1968. For example, IMF figures reveal that cacao, coconut oil, copra, and palm kernels had an average price increase of over 10 percent. Increases of less magnitude were experienced by copper, cotton, linseed oil, and sugar. Chile and the Congo, two of the less developed world's major copper producers, benefited by the upturn in copper prices. Those benefiting most directly from improved prices for the above agricultural products included Ghana, Brazil, Ceylon, the Philippines, West Africa, Argentina, the Sudan, and the United Arab Republic--Egypt.

Table 1.--International gold and foreign exchange reserves of the free world 1/

Country and area	Reserves			Change in reserves, Dec. 1967-Dec. 1968	Gold component, Dec. 31, 1968 2/	Ratio reserves to imports 3/
	Dec. 31, 1966	Dec. 31, 1967	Dec. 31, 1968			
	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Percent	Percent
ALL COUNTRIES, Total 4/	71,895	73,510	76,280	2,770	4	60
I. INDUSTRIAL AND OTHER DEVELOPED COUNTRIES 4/	60,235	61,057	62,767	1,710	3	66
United States	14,881	14,830	15,710	880	6	78
Belgium	2,350	2,590	2,187	-403	-16	84
France	6,733	6,994	4,201	-2,793	-40	92
Germany, Federal Rep. of	8,028	8,152	9,937	1,785	22	61
Italy	4,910	5,463	5,342	-121	-2	71
Netherlands	2,448	2,619	2,463	-156	-6	89
European Economic Commu- nity (excl. Luxembourg)	24,469	25,818	24,130	-1,688	-7	74
Austria	1,333	1,484	1,510	26	2	58
Denmark	597	534	449	-85	-16	44
Norway	527	677	702	25	4	14
Portugal	1,077	1,233	1,362	129	10	64
Sweden	1,027	841	815	-26	-3	48
Switzerland	3,324	3,555	3,932	377	11	67
United Kingdom	3,100	2,695	2,422	-273	-10	61
European Free Trade Association	10,985	11,019	11,192	173	2	58
Australia	1,568	1,429	1,536	107	7	33
Canada	2,693	2,709	3,041	332	12	35
Finland	189	184	354	170	92	13
Greece	273	286	322	36	13	51
Iceland	58	35	29	-6	-17	17
Ireland	494	439	545	106	24	23
Japan	2,119	2,030	2,906	876	43	22
New Zealand	95	134	76	-58	-43	1
South Africa	831	778	1,471	693	89	89
Spain	1,205	1,049	1,095	46	4	72
Turkey	131	119	123	4	3	79
Yugoslavia	115	80	132	52	65	38
II. LESS DEVELOPED COUNTRIES 4/	11,660	12,455	13,515	1,060	9	28
Latin America						
Central American Common Market 5/	221	195	230	35	18	19
Argentina	216	727	760	33	5	27
Bolivia	41	38	30	-8	-21	37
Brazil	409	199	257	58	29	22
Chile	172	126	208	82	65	22
Colombia	77	83	173	90	108	18
Dominican Republic	44	32	36	4	12	8
Ecuador	61	69	57	-12	-17	46
Haiti	2	2	3	1	50	---
Jamaica	106	102	142	40	39	5
Mexico	564	586	657	71	12	45
Panama	81	68	86	18	26	---
Paraguay	12	12	12	---	---	33
Peru	155	126	n.a.	n.a.	n.a.	n.a.

Continued

Table 1.--International gold and foreign exchange reserves of the free world 1/--Continued

Country and area	Reserves				Change in reserves, Dec. 1967-Dec. 1968	Gold component, Dec. 31, 1968 2/	Ratio reserves to imports 3/
	Dec. 31, 1966	Dec. 31, 1967	Dec. 31, 1968				
	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Mil. U.S. dol.	Percent	Percent	Percent
<u>Latin America, continued</u>							
Uruguay	196	175	194	19	11	69	b/134
Venezuela	776	872	922	50	6	52	d/59
<u>Middle East</u>							
Cyprus	98	104	156	52	50	12	a/94
Iran	255	305	292	-13	-4	54	23
Iraq	324	368	439	71	19	49	b/92
Israel	621	715	663	-52	-7	10	53
Jordan	168	244	284	40	16	12	166
Kuwait	164	184	173	-11	-6	77	b/27
Lebanon	282	281	332	51	18	87	n.a.
Saudi Arabia	747	761	661	-100	-13	21	a/96
United Arab Republic	156	196	149	-47	-24	62	22
<u>Asia</u>							
Afghanistan	47	38	37	-1	-3	84	n.a.
Burma	184	155	152	-3	-2	55	109
Ceylon	43	55	51	-4	-7	---	a/14
China, Republic of	337	416	381	-35	-8	21	31
India	608	662	682	20	3	36	31
Korea	245	356	409	53	15	1	28
Malaysia	470	457	515	58	13	19	43
Pakistan	200	161	252	91	57	21	26
Philippines	194	180	161	-19	-11	38	13
Thailand	924	1,009	1,021	12	1	11	a/88
Vietnam	306	334	279	-55	-16	n.a.	a/70
<u>Africa</u>							
Congo (Kinshasa)	22	68	n.a.	n.a.	n.a.	n.a.	n.a.
Ethiopia	79	65	66	1	2	20	34
Ghana	126	100	113	13	13	5	a/38
Libya	339	385	539	154	40	17	79
Morocco	87	76	85	9	12	25	a/16
Nigeria	227	122	125	3	2	22	20
Somalia	12	11	7	-4	-36	---	n.a.
Sudan	57	55	48	-7	-13	n.a.	a/26
Tunisia	28	40	30	-10	-25	13	15
East Africa 6/	239	206	n.a.	n.a.	n.a.	n.a.	n.a.
Equatorial Africa 7/	66	39	63	24	62	11	a/17
West Africa 8/	173	169	177	8	5	6	b/29

---Indicates figure is zero or less than half of the last digit shown. n.a. = Not available.

1/ Includes reserve position with the International Monetary Fund. 2/ Gold tranche position and lendings to the Fund (reserve position in the Fund) included with gold. 3/ Ratio of December 31, 1968, reserves to fourth quarter 1968 imports (at annual rates) except where denoted by letters which indicate imports for the following periods: (a) third quarter 1968, (b) second quarter 1968, (c) first quarter 1968, (d) fourth quarter 1967. 4/ Includes some countries not separately shown. 5/ Includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. 6/ Includes Kenya, Tanzania, and Uganda. 7/ Includes Cameroon, Central African Republic, Chad, Congo (Brazzaville), and Gabon. 8/ Includes Dahomey, Ivory Coast, Mauritania, Niger, Senegal, Togo, and Upper Volta.

Source: International Monetary Fund, International Financial Statistics, April 1969.

Table 2.--International trade of the free world, calendar years 1967 and 1968

Country and area	Exports			Imports			Trade balance			
	(f.o.b.)		Changes 1966 to 1967 to 1967 : 1968	(c.i.f.)		Change 1966 to 1967 to 1967 : 1968	1967	1968		
	1967	1968		1967	1968					
	--Mil. U.S. dol.--	--	Percent--	--Mil. U.S. dol.--	--	Percent--	--Mil. U.S. dol.--	--		
WORLD TOTAL	190,500	212,500	5.0	11.5	202,200	224,800	5.2	11.2	-11,700	-12,300
I. INDUSTRIAL AND OTHER DEVELOPED COUNTRIES	150,910	169,500	5.5	12.3	160,430	180,060	5.3	12.2	-9,520	-10,560
United States	31,622	34,660	3.9	9.6	29,121	36,012	5.0	23.7	2,501	-1,352
Belgium-Luxembourg	7,032	8,148	2.9	15.9	7,176	8,195	-0.1	14.2	-144	-47
France	11,381	12,682	4.5	11.4	12,381	13,939	4.5	12.6	-1,000	-1,257
Germany, Federal Rep. of	21,748	24,854	8.0	14.3	17,365	20,235	-3.7	16.5	4,383	4,619
Italy	8,685	10,183	8.0	17.2	9,827	10,253	14.4	4.3	-1,142	-70
Netherlands	7,286	8,341	7.9	14.5	8,336	9,296	4.0	11.5	-1,050	-955
European Economic Community	56,132	64,208	6.6	14.4	55,085	61,918	2.6	12.4	1,047	2,290
Austria	1,809	1,988	7.4	9.9	2,309	2,498	-0.8	8.2	-500	-510
Denmark	2,539	2,628	3.5	3.5	3,154	3,224	5.0	2.2	-615	-596
Norway	1,738	1,938	11.1	11.5	2,748	2,714	14.3	-1.2	-1,010	-776
Portugal	701	734	13.1	4.7	1,059	1,043	3.5	-1.5	-358	-309
Sweden	4,528	4,937	6.1	9.0	4,701	5,182	2.6	10.2	-173	-245
Switzerland	3,498	3,969	6.8	13.5	4,129	4,513	4.7	9.3	-631	-544
United Kingdom	14,379	15,346	-2.0	6.7	17,694	18,959	6.3	7.1	-3,315	-3,613
European Free Trade Association	29,192	31,540	2.3	8.0	35,794	38,133	5.5	6.5	-6,602	-6,593
Australia	3,478	3,529	10.1	1.5	3,913	4,377	7.6	11.8	-435	-848
Canada	11,027	13,134	10.4	19.1	10,966	12,491	7.8	13.9	61	643
Finland	1,534	1,636	1.9	6.6	1,696	1,593	-1.7	-6.1	-162	43
Greece	495	443	21.9	-10.5	1,186	1,380	-3.0	16.4	-691	-937
Iceland	97	82	-30.7	-15.5	162	138	1.9	-14.8	-65	-56
Ireland	788	796	15.2	1.0	1,082	1,172	3.7	8.3	-294	-376
Japan	10,442	12,973	6.8	24.2	11,664	12,988	22.5	11.4	-1,222	-15
New Zealand	993	1,010	-7.7	1.7	955	895	-6.3	-6.3	38	115
South Africa	1,931	2,153	11.9	11.5	2,945	2,897	16.6	-1.6	-1,014	-744
Spain	1,384	1,591	10.4	15.0	3,456	3,500	-3.3	1.3	-2,072	-1,909
Turkey	523	496	6.7	-5.2	691	770	-4.7	11.4	-168	-274
Yugoslavia	1,252	1,259	2.4	0.6	1,707	1,796	8.3	5.2	-455	-537
Sum of others--										
Australia to Yugoslavia	33,944	39,102	8.0	15.2	40,423	43,997	9.3	8.8	-6,479	-4,895
II. LESS DEVELOPED COUNTRIES	39,600	43,000	3.4	8.6	41,800	44,700	4.8	6.9	-2,200	-1,700

Source: International Monetary Fund, International Financial Statistics, April 1969.

On the negative side, butter, hemp, hides, palm oil, and sisal prices in 1968 were down 10 to 22 percent below 1967 levels with price declines of less than 10 percent realized by burlap, jute, rubber, groundnuts, tea, tin, and wheat. Less developed countries directly affected by the decline in prices for the preceding products include India, Nigeria, the Philippines, Argentina, Pakistan, Malaysia, Ceylon, Haiti, and some in East Africa.

The European Community's Unit of Account

When the international monetary crises occurred last year, it appeared fairly clear that a simultaneous devaluation of the franc and revaluation of the mark would shatter the common system of agricultural prices which the European Economic Community had spent 6 years formulating. Such a result is not so certain today.

The unit of account is a bookkeeping unit, not a medium of exchange; it is an abstract value in which EC monetary regulations are formulated and translated into domestic prices through official exchange parities of the six countries. Although no transactions take place denominated in the unit of account, it is defined as equivalent to 0.888671 grams of gold. This also happens to be the same amount of gold which equals one U.S. dollar.

The major use of the unit of account is in agricultural policy making, but there are numerous other uses, such as apportioning the EC's budget. The Community's agricultural support and guidance system, harmonized prices, and the variable levies on imports of agricultural products are keyed to the unit of account.

As originally conceived regarding agricultural prices, the unit of account automatically was to convert a change in a country's exchange rate into an immediate domestic price change. A 10-percent devaluation implies a 10-percent rise in domestic prices in the devaluing country of commodities covered by common agricultural policies. Correspondingly, revaluation implies an immediate, proportionate lowering of domestic prices. In both cases, strict proportionality holds only if prices are at the intervention level. To this extent the system robs changes in foreign exchange parities of their usual effects and renders such changes unattractive.

However, so far a one-currency exchange parity adjustment has not arisen. Rather what appears on the horizon is the much more complex case in which one currency (the franc) might be devalued while another (the mark) would be revalued. When exchange adjustments are not proportional, nor in the same direction, it has not been possible to obtain advance agreement on how the unit of account or prices should be changed, if at all.

Following last year's monetary crises, the EC Council prepared a regulation providing that the unit of account is automatically suspended when a member country announces a change in its official foreign exchange parity. The Council in special session is then to examine the value of the unit of account and modify it or adjust the regulations covering price harmonization if there is a unanimous decision favoring the change. An unspecified period can be allowed for adjustment.

With this regulation in force and by agreement of the member countries, the impact of exchange rate adjustments can be distributed over months or years, and the stresses produced by monetary action need not cause unbearable strain and dislocation in the agricultural sector.

Also, an alternative to changing prices or the unit of account has been discussed in the Community. Under the alternative, a devaluing country would tax its farmers enough to offset devaluation gains. A revaluing country would pay sufficient income subsidies to its farmers to offset the income decline due to lower prices following revaluation. In this way the present system of price harmonization could continue.

Although not yet fully automatic, the EC adjustment mechanism is becoming more flexible and thus able to avoid the crises which might lead to disruptions in world commerce and U.S. agricultural exports.

AREA AND COUNTRY DATA

In December 1968, the developed and industrial countries held \$62.8 billion, or over 82 percent, of the world's total reserves; \$13.5 billion was in the hands of the less developed nations. Gains in international reserves amounted to \$2.8 billion between 1967 and 1968, with the developed countries accounting for 62 percent of this increase. Reserves of less developed countries at the end of 1968 were up 9 percent from those of a year earlier and 16 percent higher than the 1966 reserves. With the exception of Saudi Arabia, reserve losses for individual less developed countries did not exceed \$55 million, and aside from Somalia none of these countries had losses between 1967 and 1968 which were greater than 30 percent of their total 1967 reserves.

Less developed countries accounted for roughly 20 percent of world trade in 1968. Their trade deficit that year declined to \$1.7 billion from \$2.2 billion in 1967. In contrast, the deficit for the developed world went from \$9.5 billion to \$10.6 billion. Since these trade balances are subject to distortions (see footnote on page 2), it is not possible to ascertain how much of the change is the result of variations in their trade with each other.

Industrial and Other Developed Countries

At the close of 1968, the European Free Trade Association and the European Economic Community jointly held over 46 percent of the world's international reserves. EFTA held roughly 15 percent, or \$11.2 billion, while the EEC accounted for almost 32 percent or \$24.1 billion. During 1968, EFTA supplied about \$31.5 billion of world exports, compared with the EEC's \$64.2 billion, and received \$38.1 billion in imports. EEC imports in 1968 were valued at \$61.9 billion. Together, EFTA and the EEC accounted for approximately 45 percent of world trade in 1968.

As indicated in table 4, real output of the European Community increased about 5.4 percent during 1968; this was substantially higher than the 3.2 percent recorded in 1967. Growth in 1969 is forecast at a rate above 5 percent.

Table 3.--Major changes in monetary gold holdings 1/

Country or institution	Changes, Dec. 31, 1967 to Dec. 31, 1968
	<u>Billion U.S. dollars</u>
France	-1.4
United States	-1.2
Switzerland	-0.5
Canada	-0.2
Portugal	0.2
United Kingdom	0.2
Germany	0.3
Italy	0.5
South Africa	0.7
Less developed countries	0.5
Country holdings, total	-0.6
World total, including institutions	-0.7

1/ Excluding IMF gold tranche position and lendings to the IMF.

Source: International Monetary Fund, International Financial Statistics, April 1969

Table 4.--Growth in real output, selected countries, 1967-69

Country	1967	1968	1969 forecast
	<u>Percent</u>		
France	4.6	4.2	5.4
Germany	0	6.9	5.0
Italy	5.9	5.2	6.5
Netherlands	5.6	5.3	5.0
B.L.E.U.	3.4	4.5	4.0
EEC	3.2	5.4	5.4
Australia <u>1/</u>	6.4	3.7	7.0
Canada	3.1	4.7	4.0
Japan <u>2/</u>	13.4	14.9	11.8
United Kingdom	1.2	3.8	2.5
United States	2.4	5.0	3.0

1/ Fiscal year ending June 30.

2/ Fiscal year ending March 31 of following year.

Of the EEC group, Germany realized the most outstanding economic advance in 1968, 6.9 percent. The Netherlands and Italy were closely tied for second place with 5.3 and 5.2 percent, respectively; however, growth in both countries was below their 1967 levels. In December 1968, these three Nations, combined, accounted for roughly 23 percent of the world's total international reserves, slightly over 20 percent of its total export value and about 18 percent of the import total. France and the Belgium-Luxembourg complex each increased their real output by over 4 percent in 1968. For Belgium-Luxembourg this was a vast improvement over the previous year, but the French economy sagged slightly in 1968.

France suffered a \$2.8-billion loss of international reserves between 1967 and 1968, reflecting that Nation's growing trade deficit, production decline, and the loss of confidence in the franc following the internal unrest and strikes in the spring of 1968. By April 1969, total reserves reportedly dropped even lower than the \$4.2-billion figure of December 1968. The value of the French franc weakened several times during 1968 and in the first 4 months of 1969 but France did not resolve its currency problems through devaluation. France has doggedly supported its currency by dipping into its reserves when the price of the franc neared its official support level. Between December 1967 and year-end 1968, France's gold holdings fell \$1.4 billion. But, generally, the industrial sector of the Nation's economy regained prestrike levels by late summer 1968; in fact, by September output began an uptrend which apparently continued throughout the remainder of the year. Even so, uncertainties regarding future labor and wage developments and excessive price inflation still greatly concern France. The unions hold a strike threat in reserve if the Government fails to yield to their wage demands. Wages rose 14.0 percent and the cost of living 5.7 percent in 1968. A return to internal equilibrium and price stability is a chief objective of France's austerity program. At present, the price of almost every product or service merchandized in France is under surveillance, if not actually controlled, through a system involving program contracts, conventions, or price freezes. The total economy grew by 4.2 percent during 1968, down from the 4.6 percent of 1967; but it is projected to grow about 5.4 percent this year. Exports of \$12.7 billion in 1968 were \$1.3 billion short of the year's import total, and the trade deficit was \$257 million higher than the year earlier.

The Federal Republic of Germany's international reserves increased by roughly \$1.8 billion between 1967 and 1968, amounting to over \$9.9 billion last December 31. The rapid rate of economic growth during 1968 reflected a high level of investment and a strong demand for the Nation's exports. Gross national product during the year expanded almost 7 percent above the 1967 figure; wages were up sizably; and price increases, although not very large, were worrisome to the inflation-conscious Germans. If measures designed to reduce Germany's trade surpluses are effective, its GNP will probably grow by not more than 5 percent in 1969. To resist revaluating the mark and to help ease economic pressures on trade deficit countries, Germany attempted to trim its positive trade balance by adjusting its tax rates in November 1968, a move designed to encourage imports and slow exports. It also took steps to discourage inflows of short-term nonresident capital, other than that used to finance foreign trade. Revaluation of the mark has been resisted in part because of the adverse effect on the income of German farmers operating under common agricultural policy, and because it might produce higher unemployment and lower the purchasing power of those on fixed incomes.

Despite the 1968 tax reforms, Germany's exports totaled almost \$24.9 billion in 1968, up more than 14 percent above those of the previous year. Imports were up over 16 percent, reaching \$20.2 billion in 1968. In April 1969, the Government raised interest rates in a further attempt to prevent inflation, but this method of controlling prices, in effect, will discourage capital outflow and encourage capital inflow. This is in contrast with the country's stated monetary objectives. In response to April's higher interest rates, demand for the mark immediately accelerated while that for the French franc and British pound weakened. German reserves increased by an estimated two-thirds of a billion dollars in April 1969.

Inflationary pressures in the United States remained strong in 1968 and December unemployment reached a 15-year-low of 3.3 percent. Real gross national product rose 5 percent, doubling the 1967 growth rate. Growth in 1969 is not expected to reach the past year's level but should be closer to the 1967 rate. International reserves were slightly over \$15.7 billion in December 1968, up 6 percent from the comparable 1967 level. U.S. foreign currency holdings equaled \$3.5 billion by year-end; of the remaining U.S. reserves (excluding the gold tranche position in the IMF) slightly over 69 percent was held as gold. This is a noticeable change from 1967 when gold holdings represented 81 percent of total U.S. reserves. A trade deficit of almost \$1.4 billion (IMF basis with imports reported c.i.f.) appeared in 1968 as imports increased 23.7 percent to \$36.0 billion and exports expanded only 9.6 percent to \$34.7 billion. (For a more detailed discussion of U.S. trade see page 17.)

The 10-percent tax surcharge enacted by the U.S. Government in 1968 as part of its policy to curb inflation was still in effect in the first half of 1969. On April 3, the Federal Reserve Board, in a further attempt to lower demand in the money market, raised the discount rate of the Federal Reserve Banks from 5½ to 6 percent. The prime interest rate in the United States reached 7½ percent by March 1969. Reserve requirements for demand deposits in the larger reserve city banks were increased, effective April 17, to between 17 and 17½ percent, depending upon the size of their deposits; the requirements for smaller banks after the increase ranged between 12½ and 13 percent.

Japan's balance-of-payments position improved greatly last year, enabling the Government to lower the Central Bank's interest rate to 5.84 percent in August. Two months later, the Bank suspended lending restrictions which it had imposed in March 1968.

Domestic demand, commercial activity, and production continued on a high plane in 1968, although investment in plant and equipment slowed slightly under Japan's tight monetary policies. Until internal pressures on the Nation's resources have eased and export prospects are more secure, monetary restrictions probably will not be entirely abolished. For example, as population growth slows, pressuring the Japanese labor market, wages have been forced up. This has been followed by rising consumer demand and higher prices.

The value of foreign-held securities in mid-1968 was about double those held during the previous year. This, no doubt, reflects foreign confidence in the Japanese economy but is also the result of steps, albeit small ones, taken by the Government to permit more foreign investment and, at the same time, benefit from foreign technology accompanying it.

Japan's international reserves rose by \$876 million between December 1967 and December 1968; this compares with an \$89-million decline from the end of 1966 to the end of 1967. The country's 1968 trade deficit narrowed to \$15 million, a tremendous improvement from the \$1.2-billion deficit of 1967. Exports rose 24.2 percent and imports only 11.4 percent, with each totaling almost \$13 billion in 1968. Japan, a sizable market for U.S. exports, expects its imports to rise at about the same pace as its economy; however, Japanese industrialists have expressed concern regarding U.S. trade policies. The United States takes roughly one-third of Japanese exports and in 1968 Japan had a \$1-billion trade surplus with the United States.

Canada reported international reserves of over \$3 billion by December 31, 1968, up 12 percent from the 1967 figure. Its economy expanded by almost 5 percent last year, compared with roughly 3 percent a year earlier. A 4-percent increase is expected during 1969. A sharp rise in exports and domestic consumption contributed heavily to economic expansion. Although unemployment reached almost 5 percent in 1968, prices and wages continued to climb and industrial production expanded by over 5 percent.

Canada depends greatly upon U.S. capital inflows to finance its current account balance-of-payments deficits; and when the United States announced a program in early 1968 to control capital outflows, the Canadian dollar came under pressure in the exchange market. This led to a Canadian drawing from the IMF and an application of internal monetary restrictions by the Canadian Government. There was heavy international support for the Canadian dollar during the crisis and the lack of confidence was basically overcome by mid-1968 after the United States agreed to exempt Canada from restrictive measures related to U.S. capital outflows. By September 1968, Canada's monetary policy eased somewhat, the gold tranche portion of the IMF drawing was repaid, and the bank rate (which had been raised to 7½ percent) dropped back to 6 percent. By year-end, however, the bank rate was raised to 6½ percent in response to inflationary pressures. Income tax rates also were increased in last-quarter 1968.

Canada's trade surplus totaled \$643 million in 1968. Exports of over \$13.1 billion were 19.1 percent above the 1967 level, and imports advanced 13.9 percent to \$12.5 billion.

The United Kingdom followed its 1967 currency devaluation with measures to restrain imports and domestic consumption while promoting exports. It hoped to swing its balance of payments into a surplus position of over \$1 billion by the end of 1968; however, a surplus did not materialize and it is now projected for year-end 1969. Despite U.K. actions, consumer demand intensified in second-half 1967 and was barely contained last year.

There was a strong upswing in British exports, especially during second-quarter 1968. Exports totaled \$15.3 billion for the year, up 6.7 percent from a year earlier. Imports, on the other hand, increased 7.1 percent to roughly \$19 billion, leaving a trade deficit almost \$300 million larger than in 1967. The United Kingdom normally takes 6 percent of all U.S. imports. The U.S. share of the U.K. import market has been about 12 percent in recent years, but price competition from countries who devalued their currencies when the United Kingdom devalued the pound is threatening to cut into U.S. fruit and vegetable sales. The United States is also facing competition from the EEC's subsidized

exports, such as wheat and lard. In the case of lard, the United States has responded with an export subsidy and hopes to recapture the market. However, the United Kingdom plans to expand its agricultural production by 1973 in areas which could affect U.S. exports of grains, lard, and variety meats.

The U.K.'s international reserves of slightly over \$2.4 billion at the end of 1968 had dropped 10 percent from the end of 1967. The country's overall economy grew by almost 4 percent in 1968, a sizable increase over the 1.2-percent growth rate reported in 1967. But the growth rate is expected to be under 3.0 percent in 1969. The new budget recently presented by the Government is designed to curb consumer spending by removing over \$800 million from the economy during the next year via higher taxes on the service trades and on such items as gasoline, company profits, gambling profits, and luxury foods. The United Kingdom also took steps to reduce the Nation's money supply and to encourage growth of personal savings. Although price and wage legislation will expire at the end of the year, the Government has made clear its intention to press for enactment of antistrike legislation.

The strong uptrend in the Australian economy will probably expand the Nation's GNP in real terms by about 7 percent in 1969. Real gross national product increased 6.4 percent in 1967 and 3.7 percent in 1968. This spirited economic activity has put some pressure on prices and wages, and the annual rate of inflation is reported to be about 2.5 percent.

Government policy continues to encourage foreign investment, and inflows of foreign capital have had a very beneficial effect upon the balance of payments by serving to finance the large merchandise trade deficit.

International reserves increased by 7 percent between year-end 1967 and 1968; the 1968 total reached over \$1.5 billion. The 1968 trade deficit at \$848 million was up from \$435 million in 1967. Imports valued at nearly \$4.4 billion last year rose 11.8 percent from their 1967 figure while exports, valued at slightly over \$3.5 billion in 1968, had improved only 1.5 percent. Roughly one-seventh of Australia's exports are purchased by the United States. In turn, the United States supplies about one-fourth of Australia's imports. Australia's trade picture improved during December 1968 and the first 2 months of 1969. Compared with year-earlier periods, exports were up 28 percent in December 1968, up 9 percent in January 1969, and up 12 percent in February 1969. The greatest export gains during these months were realized by primary products such as wool, meat, sugar, iron, coal, and other minerals. Part of this gain was the result of better prices. Various manufactured and processed goods also registered gains. Cotton was available for export in 1968 and, starting with 1969, a bounty will be paid on all cotton production.

Total agricultural production in 1968-69 was up roughly 23 percent above the previous drought-year figures and the wheat carryover will probably total at least 200 million bushels in December 1969. The Meat Board is also warning that meat production will exceed local needs by 400,000 tons; about 225,000 tons of this is to be sold in the United States with the remainder heading for lower priced markets.

Australia wants to be fully involved in the changing picture of Pacific economic development and will endeavor to increase its interests and, hopefully, its share of the export market in this area.

Less Developed Countries

International reserves of less developed countries increased by \$1.1 billion between 1967 and 1968. Individual gains of over \$80 million were reported for Libya, Pakistan, Colombia, and Chile; when combined, they accounted for almost 40 percent of the LDC-reserve increase. Individual country losses of more than \$40 million were recorded for Saudi Arabia, Vietnam, Israel, and the United Arab Republic

The U.S. Department of Commerce, Office of Foreign Direct Investment, estimates that U.S. business investments in less developed countries could rise by as much as 30 percent during 1969. The Commerce Department is attributing most of the expected 1969 advance to the liberalization of U.S. investment curbs, and estimates that about \$800 million in direct dollar transfers to LDC's will occur during the year; in 1968, direct dollar outflow totaled \$330 million. Amounts reinvested and foreign borrowings in 1969 are projected at roughly their 1968 levels. Commerce reports it may also revise its investment quotas for various investment areas, because in the past some areas have had unused quotas while others could have used larger ones. Investors in Britain, Japan, Canada, and the LDC's will continue to have the most freedom of investment.

Congress recently approved a \$480-million authorization bill for the replenishment of the International Development Association which is the soft loan affiliate of the World Bank. This bill was awaiting the President's signature. Including this appropriation, representing the U.S. share of the replenishment, and \$720 million from other advanced Nations, the total resources of IDA will be increased by \$1.2 billion.

Pakistan increased its foreign reserves by \$91 million in 1968, a 57-percent improvement over its 1967 holdings. Despite adverse weather in East Pakistan and internal unrest within the entire country, overall economic growth during 1968/69 (in constant 1964-65 prices) is expected to be about 5.5 percent; this compares with a rate of better than 8 percent during 1967/68 and a projected rate of 6.5 percent for 1969/70. By utilizing high-yielding wheat and rice varieties, Pakistan has substantially increased its food grain production. This means that there will probably be decreasing wheat imports under P.L. 480. The need for other P.L. 480 commodities should remain, however, and there may be new opportunities for the United States to supply the additional agricultural machinery and storage facilities needed to handle improved domestic food grain production.

Monetary stability is reported to be a major Government objective. At present, the economy is under inflationary pressures as defense spending remains high and wage-labor benefits grow. As a result, there have been price increases, especially in East Pakistan. Due to a lack of resources, development spending by the Government has dropped below budgeted amounts.

Pakistan's 1968 exports were valued at \$720 million, topping 1967 by \$75 million. Exports have trended up in recent years. In contrast, import values have fluctuated annually, mainly because of the changing need for food grains as determined by yearly domestic production. Imports totaled \$995 million in 1968, down \$106 million from the previous year.

Cyprus continues to register sizable yearly increases in output despite the country's unsettled political situation. However, the 1968 growth rate in real terms is estimated at 4.5 percent, down substantially from the 8.7-percent increase reported the year before and the nearly 7 percent of 1966.

Inflation continues to be a problem in 1969. Strong internal demand and wage hikes of from 18 to 35 percent forced 1968 prices up by about 4 percent. A sizable demand for imports helped to widen the trade gap; nevertheless, the Government has not erected many barriers against trade or foreign investment. In fact, the climate for foreign investment is generally favorable in Cyprus.

Agricultural output contributed \$82.2 million to the country's GNP in 1968. This is slightly above the 1967 level even though last year's drought lowered the cereal crop to 100,000 tons from 180,000 the previous year. Most of the 1968 gain resulted from production advances for main export crops, such as citrus and vegetables, plus an increase in the output of grapes, meat, and dairy products.

Cyprus is attempting to strengthen the agricultural sector because of its major importance to the economy and recently passed legislation designed to stop future land fragmentation and to unify existing small plots. Eventually, the Government plans to create a central authority which will handle all phases of land consolidation. It is estimated that the island's farms, united into larger and more economical units, could realize a 20-percent increase in agricultural output by enabling farmers to use modern techniques and to make better use of irrigation facilities.

The Nation's international reserves totaled \$156 million at the end of 1968, up 50 percent from the year before. Total trade figures for 1968 are not available, but exports during the first three quarters were running about 9 percent above the same period of the preceding year. Expressed at an annual rate, exports for the first three quarters of 1968 equaled \$93 million; imports, on the same basis, equaled \$166 million and were roughly equal to the comparable 1967 figure.

Because two-thirds of the value of Colombia's exports are derived from coffee sales, any change in world coffee prices substantially affects export earnings and thus the country's balance of payments. Coffee sales during the first three quarters of 1968 amounted to roughly \$260 million, about 16 percent above the like 1967 period. If the firm prices reported during the first quarter of 1969 hold, coffee sales this year should also yield good returns.

Trade during the first half of 1968 was substantially above the comparable 1967 period. Estimates based upon these 6 months place 1968 export values up 5 to 10 percent and 1968 imports at 25 to 30 percent above the 1967 total. Exports totaled \$510 million in 1967 with imports amounting to \$497 million. The United States supplies about 50 percent of Colombia's imports.

Colombia's international reserves climbed to \$173 million by December 1968; this is 108 percent higher than the 1967 reserves. The economy advanced 5.5 percent and expects to surpass this with a 6-percent growth rate in 1969. In addition to good returns from coffee, sugar producers expect prices under the recent international sugar agreement to raise the value of sugar exports in

1969. Cotton production and sales are also showing substantial strength. The Government has expanded available credit and support prices to encourage food crop production, hoping to gain a surplus of food crops (especially grain) for export. Some rice is already being exported.

Internal demand is strong but price controls and official economic policies have fairly well curbed inflation and have given the business community a sense of solidity and continuity which tends to strengthen overall business confidence. The national budget has been balanced without inflationary borrowing and the money supply is expanding at a rate comparable with economic growth and internal price movements.

The severe drought which gripped Chile in 1968 led to serious losses in the agricultural sector as well as a significant cutback in copper output, stemming from the shortage of hydroelectric power. The real increase in gross national product in 1968 is estimated to have been below the preceding year's 2.0 percent. Industrial production during the first three quarters of last year was reported to be running about 2 percent ahead of production in the like 1967 period. Iron ore, petroleum, and coal production was also ahead of the 1967 output. Industry in Chile faces a number of inhibiting factors such as labor conflicts, insufficient demand in some areas, and insufficient production capacity in others.

Some officials estimate that the economic effects of the 1968 drought will extend over the next 6 to 8 years. They emphasize that required Government assistance to agriculture during this time will be substantial, very likely diverting funds earmarked for other pressing development projects. Besides drought-induced problems, the Nation continues to struggle with inflation fed by successive budget deficits--covered by short-term borrowing and increases in the money supply--and by the traditional practice of raising wages in direct relationship to cost-of-living increases. Prices rose about 28 percent during 1968 and wage hikes in both the public and private sectors in 1969 are scheduled to be 28 percent; higher wages in the public sector alone are projected at about one-eighth of the country's total budget for the year.

In 1968, Chile benefited from higher world copper prices and improved exchange-rate management. As a result, its balance-of-payments position improved and the Nation progressed toward a more liberal trade and foreign exchange system. Its international reserves also rose 65 percent to \$208 million from year-end 1967 to 1968 and its exports between January and September 1968 were valued at \$737 million, compared with \$682 million a year earlier. Corresponding imports totaled \$581 million in 1968 and \$559 million in 1967. Total 1967 imports reached \$868 million while exports climbed to \$910 million.

Nigeria's gross national product advanced slightly in 1967 and economic growth is reported to have continued at a slow but steady pace in 1968. Agricultural production last year was close to normal levels and local merchants benefited from import restrictions; however, the heavy import duties and a decrease in groundnut prices in 1968 cut local purchasing power somewhat. Petroleum production is expected to increase rapidly in 1969 and by March had practically returned to prewar levels of 580,000 barrels per day. All but one producing field were closed in 1967 because of the war.

The Government in recent months enacted legislation restricting actions of foreign companies, the banking system, and insurance companies. It is also regulating installment buying and landholdings. Foreign investors have found these restrictions slightly deterring to their investment plans, but have not become completely disinterested. The Government is expected to raise some tax levels in 1969 to help finance its budget deficit and keep the lid on inflation.

The country's international reserves of \$125 million at the end of 1968 were relatively unchanged from a year earlier despite heavy Government expenditures because of the civil strife. The petroleum sector excluded, foreign capital inflows have shrunk; nevertheless, the balance-of-payments deficit at the end of 1968 was substantially less than at the close of 1967. With increased oil revenues, the 1969 balance will probably be even better. Exports are estimated to have dropped to \$603 million during 1968 from \$680 million the previous year; imports declined about 15 percent below the 1967 level to an estimated \$533 million.

Yearly estimates based on data for the first 6 months of the year place Tunisia's 1968 real gross national product about 7 percent above the 1967 level. Gross national product grew by roughly 3 percent in 1967 as did the money supply; during 1968, the money supply probably increased by over 5 percent. Serious drought conditions that developed in the latter part of 1968 will substantially reduce 1969 agricultural production. It drastically reduced the late 1968 olive harvest and thus the amount of olive oil which can be marketed in 1969. Olive oil is a leading agricultural export and foreign exchange earner. The country's 1968 exports, valued at \$158 million, improved about 6 percent from the previous year while imports, totaling \$210 million, dropped almost 20 percent. Because the country's trade deficit was substantially reduced, the current account deficit in its balance of payments was also reduced and a slight balance-of-payments surplus was projected for 1968. Tunisia's international reserves dropped to \$30 million by December 31, 1968, down 25 percent from the like 1967 period. Its external public debt by the close of 1968 was reported up by over 12 percent from the year-earlier level. In 1969, the Government announced that it planned to incorporate the country's remaining private farms into the cooperative framework.

U.S. AGRICULTURE AND THE BALANCE OF PAYMENTS

by George R. Kruer 1/

Last year, the traditional U.S. merchandise trade surplus all but disappeared. It fell to only \$103 million in 1968 from \$3.5 billion a year earlier (table 5). The agricultural trade surplus dropped from \$1.9 billion to \$1.2

1/ For a discussion of the concepts and methods underlying the data presented in this section see Kruer, George R., U.S. Agriculture and the Balance of Payments, 1960-67, ERS Foreign 224, U.S. Dept. Agr., April 1968. The Office of Business Economics, U.S. Dept. Commerce revised many of the figures underlying the preceding report and the revised series, for 1960-68 is presented here.

Table 5.--U.S. merchandise trade, balance-of-payments basis, 1960-68

Period and commodity group	Exports (f.o.b.)			Imports (f.o.b.)			Trade balance	
	Total	Noncommercial	1/ Commercial	Total	Commercial	(f.o.b.)	Total	Commercial
-----Million U.S. dollars-----								
Total:								
1960.....	19,487	2,046	17,441	14,744			4,743	2,697
1961.....	19,944	2,396	17,548	14,522			5,422	3,026
1962.....	20,606	2,503	18,103	16,219			4,387	1,884
1963.....	22,071	2,882	19,189	17,014			5,057	2,175
1964.....	25,297	3,032	22,265	18,648			6,649	3,617
1965.....	26,244	2,952	23,292	21,516			4,728	1,776
1966.....	29,176	3,152	26,024	25,541			3,635	483
1967.....	30,468	3,523	26,945	26,991			3,477	-46
1968.....	33,376	3,352	30,024	33,273			103	-3,249
Agricultural:								
1960.....	4,835	1,377	3,458	3,894			941	-436
1961.....	5,023	1,454	3,569	3,756			1,267	-187
1962.....	5,037	1,423	3,614	3,898			1,139	-284
1963.....	5,584	1,538	4,046	4,044			1,540	2
1964.....	6,350	1,630	4,720	4,090			2,260	630
1965.....	6,229	1,360	4,869	4,087			2,142	782
1966.....	6,879	1,403	5,476	4,491			2,388	985
1967.....	6,385	1,324	5,061	4,452			1,933	609
1968.....	6,221	1,238	4,983	5,028			1,193	-45
Nonagricultural:								
1960.....	14,652	669	13,983	10,850			3,802	3,133
1961.....	14,921	942	13,979	10,766			4,155	3,213
1962.....	15,569	1,080	14,489	12,321			3,248	2,168
1963.....	16,487	1,344	15,143	12,970			3,517	2,173
1964.....	18,947	1,402	17,545	14,558			4,389	2,987
1965.....	20,015	1,592	18,423	17,429			2,586	994
1966.....	22,297	1,749	20,548	21,050			1,247	-502
1967.....	24,083	2,199	21,884	22,539			1,544	-655
1968.....	27,155	2,114	25,041	28,245			-1,090	-3,204

1/ Total noncommercial exports are equal to the amount of U.S. merchandise financed by the U.S. Government with international grants and credits and which involve no direct dollar outflow from the United States. Noncommercial agricultural exports are from table 7 and noncommercial nonagricultural exports are the residual.

Source: ERS statistics and Survey of Current Business, U.S. Department of Commerce.

billion, while the nonagricultural trade balance went from a \$1.5 billion surplus to a \$1.1 billion deficit. Nonagricultural trade registered a deficit in all but one 1968 quarter (table 6). Agricultural trade resulted in quarterly surpluses although the third-quarter surplus was only \$82 million.

Given the 1968 decline in the balances, what has been their behavior in the 1960's? The total trade surplus went from \$4.7 billion in 1960 to a peak of \$6.6 billion in 1964, but since then declined to only \$100 million in 1968 (figure 1). Over the same period the agricultural trade surplus went from \$0.9 billion in 1960 to a peak of \$2.4 billion in 1966, then slipped back to \$1.2 billion in 1968.

But using the total trade balance to measure our competitive position in world trade is often criticized because it includes those exports financed by the U.S. Government with international grants and credits, the so-called non-commercial exports. When this type of export is mentioned, the first thing that comes to most peoples' minds is the Public Law 480 program for financing agricultural exports. But this is not the only nor the largest noncommercial export program. The Agency for International Development and Export-Import Bank both provide Government financing for exports. While some agricultural exports are financed under these programs, the bulk of such financing goes for nonagricultural products. In 1968 about \$3.4 billion worth of exports was financed by the Government with international grants and credits. Of this amount only \$1.2 billion was in agricultural commodities and the remaining \$2.1 billion was non-agricultural products.

If we look at our commercial balance of trade, that is, excluding those exports financed by the Government, then our international competitive position looks much worse (figure 2). The commercial balance for all products went from a \$2.7-billion surplus in 1960 to a \$3.2-billion deficit in 1968. The deterioration occurred in the nonagricultural trade sector which went from a surplus of \$3.1 billion to a deficit of \$3.2 billion in that span, an almost exact reversal of positions.

Agriculture improved its position, moving from a deficit of \$400 million in 1960 to a deficit of less than \$50 million in 1968. However, just looking at the beginning and ending years hides the \$600 million-to-\$1.0 billion surpluses that were recorded in the years 1964 to 1967.

Noncommercial agricultural exports in 1968 of \$1.2 billion actually were slightly less than they were in 1960. Over the same time span, nonagricultural exports financed by the Government increased from \$0.7 billion to \$2.1 billion.

Most noncommercial agricultural exports are made under the authority of Public Law 480, and local currency sales are still the most important category. However, these sales are declining and went from a high of \$1.2 billion in 1964 to \$0.6 billion in 1968 (tables 7 and 8). Long-term credit sales have increased rapidly since they were started in 1962 and amounted to \$335 million in 1968. Grants under P.L. 480 have not changed much in recent years, remaining around \$270 million. Agricultural products exported under the AID program declined to only about \$11 million last year. Agricultural exports financed by the Export-Import Bank have picked up in the past 3 years and amounted to \$71 million in 1968, all of it cotton going to Japan under a \$75-million line of credit.

Table 6.--U.S. merchandise trade, balance-of-payments basis, by quarters, 1967-68

Period and commodity group	Exports (f.o.b.)		Imports (f.o.b.)		Trade balance	
	Total	Noncommercial ^{1/}	Commercial	(f.o.b.)	Total	Commercial
	-----Million U.S. dollars-----					
Total:						
1967 I	7,589	966	6,623	6,646	943	-23
II	7,911	933	6,978	6,622	1,289	356
III	7,146	790	6,356	6,430	716	-74
IV	7,822	834	6,988	7,293	529	-305
1968 I	7,884	949	6,935	7,746	138	-811
II	8,584	901	7,683	8,278	306	-595
III	8,238	761	7,477	8,512	-274	-1,035
IV	8,670	741	7,929	8,737	-67	-808
Agricultural:						
1967 I	1,603	362	1,241	1,180	423	61
II	1,595	413	1,182	1,064	531	118
III	1,437	251	1,186	1,064	373	122
IV	1,750	298	1,452	1,144	606	308
1968 I	1,645	404	1,241	1,187	458	54
II	1,481	408	1,073	1,261	220	-188
III	1,426	183	1,243	1,344	82	-101
IV	1,669	243	1,426	1,236	433	190
Nonagricultural:						
1967 I	5,986	604	5,382	5,466	520	-84
II	6,316	520	5,796	5,558	758	238
III	5,709	539	5,170	5,366	343	-196
IV	6,072	536	5,536	6,149	-77	-613
1968 I	6,239	545	5,694	6,559	-320	-865
II	7,103	493	6,610	7,017	86	-407
III	6,812	578	6,234	7,168	-356	-934
IV	7,001	498	6,503	7,501	-500	-998

^{1/} Same as footnote 1, table 1 except the source for noncommercial agricultural export is table 8.Source: ERS statistics and Survey of Current Business, U.S. Department of Commerce.

Table 7.--Noncommercial U.S. agricultural exports, 1960-68 1/

Item	1960	1961	1962	1963	1964	1965	1966	1967	1968
	-----Million U.S. dollars-----								
Total noncommercial agricultural exports	1,377	1,454	1,423	1,538	1,630	1,360	1,403	1,324	1,238
By program:									
Title I, P.L. 480, sales for: local currencies 2/	980	902	1,012	1,149	1,234	914	840	740	558
Title I, P.L. 480, long-term: dollar-credit sales 2/ 3/ ..	---	---	39	50	97	147	233	190	335
Title II, P.L. 480 grants ..	218	339	328	328	276	273	240	295	263
Mutual Security (AID) disposals	157	179	35	11	23	26	47	33	11e
Export-Import Bank, financed: from own resources	22	34	9	---	---	---	43	66	71
---Zero or less than \$500,000. e---estimated.									

1/ Those financed by the U.S. Government with international grants and credits.

2/ Excludes the value of commodities shipped under the program but paid for by initial payments in dollars. Therefore the series do not represent total value of shipments under the program, but only the value financed by the U.S. Government with international grants or credits.

3/ Includes convertible local currency credit sales.

Source: P.L. 480 program (all titles): Office of Business Economics, U.S. Department of Commerce; Mutual Security and Export-Import Bank programs: Based on data from AID and the Export-Import Bank.

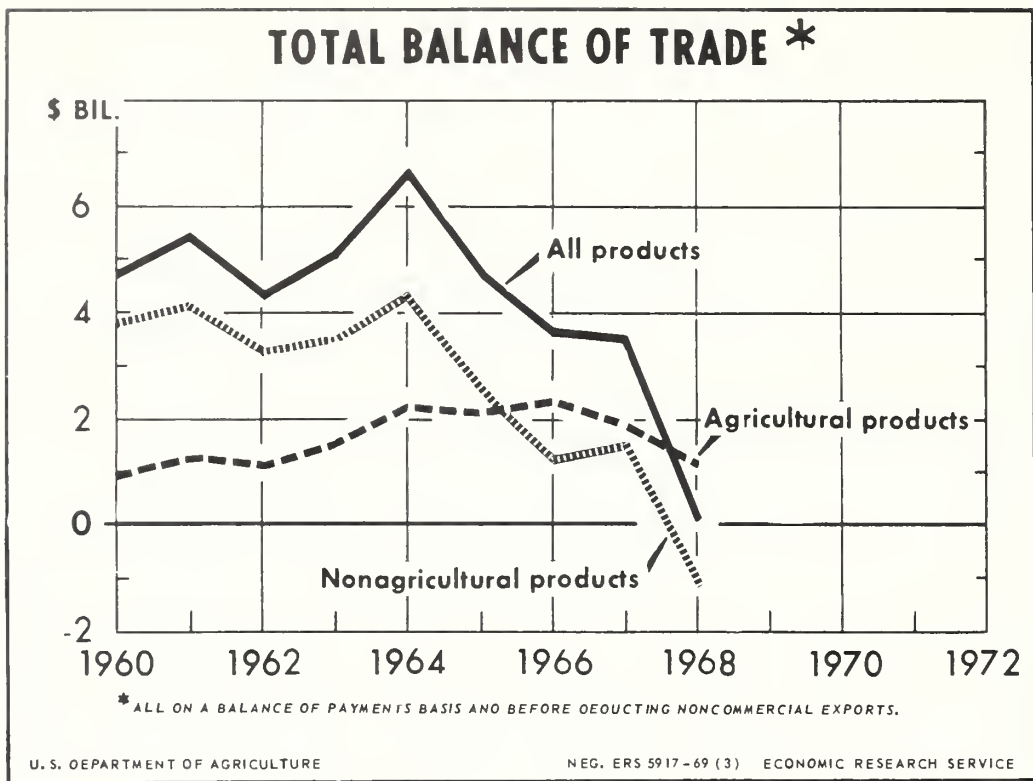


Figure 1

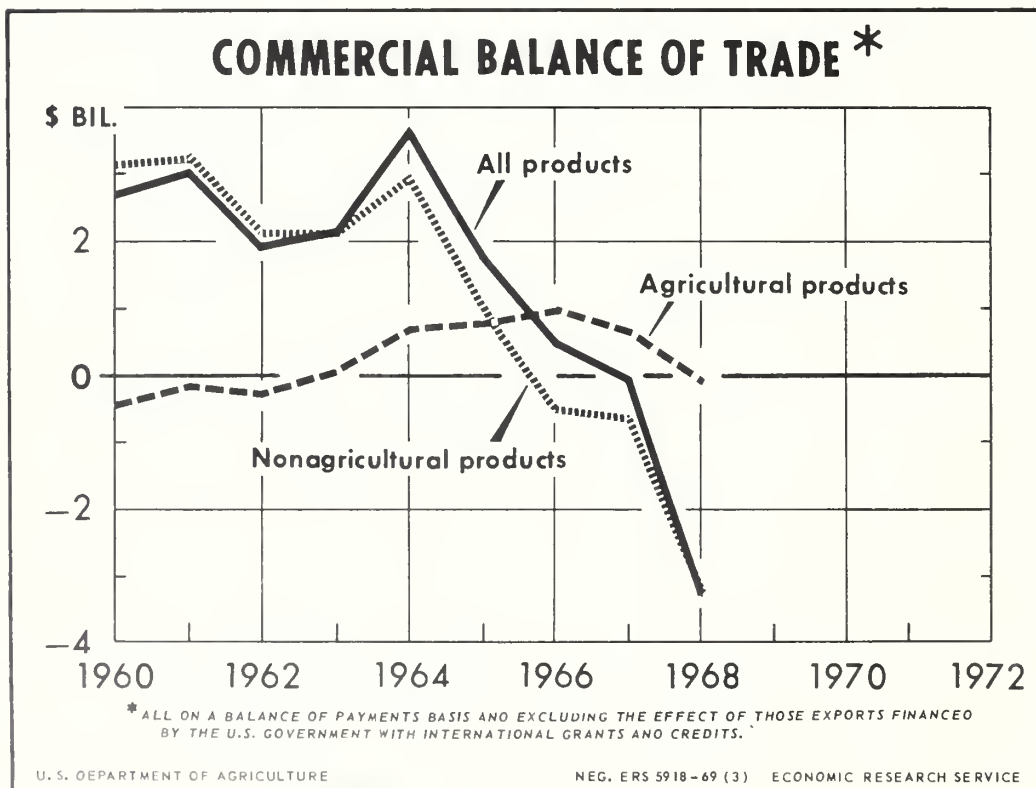


Figure 2

Table 8.--Noncommercial U.S. agricultural exports, quarterly, 1967-68 1/

Item	1 9 6 7				1 9 6 8			
	I	II	III	IV	I	II	III	IV
	-----Million U.S. dollars-----							
Total noncommercial agricultural exports	362	413	251	298	404	408	183	243
By program:								
Title I, P.L. 480, sales for local currencies <u>2/</u> ...	198	243	137	162	261	170	61	66
Title I, P.L. 480, long-term dollar credit sales <u>2/</u> <u>3/</u>	36	44	35	75	53	131	50	101
Title II, P.L. 480 grants	85	106	60	44	66	82	54	61
Mutual Security (AID) disposals	14	7	9	3	3	2	3e	3e
Export-Import Bank, financed from own resources	29	13	10	14	21	23	15	12

e--estimated

1/ 2/ 3/ Same as in table 7.

Source: Same as in table 7.

While it may be better to remove noncommercial exports from the trade figures, it is not correct to say they do not provide any balance-of-payments support. Those which are sold on credit help our balance of payments when they are repaid and those sold for inconvertible local currencies help when they are used abroad in place of dollars to pay U.S. expenses.

For agricultural products these returns amounted to \$294 million in 1968 and for the 9 years since 1960 have amounted to \$2.0 billion (tables 9 and 10). If these returns are added to commercial exports, then in 1968 we get a gross contribution to the balance of payments by agriculture of \$5.3 billion (figure 3). The net contribution, after deducting imports, was \$250 million. In the 4 years preceding 1968, agriculture's net contribution averaged \$1 billion (figure 4). Without these positive contributions by agriculture, our total balance-of-payments position would have been that much worse. For example, in 1967 the overall deficit would have been \$4.5 billion rather than \$3.6 billion (figure 5 and table 11).

Table 9.--Agriculture's contribution to the U.S. balance of payments, 1960-68

Item	1960	1961	1962	1963	1964	1965	1966	1967	1968
	-----Million U.S. dollars-----								
Commercial agricultural exports	3,458	3,569	3,614	4,046	4,720	4,869	5,476	5,061	4,983
Plus: Realized dollar returns and savings: on noncommercial agricultural exports ..	167	194	187	171	228	212	171	332	294
Title I, P.L. 480, foreign currencies: used by U.S. agencies	118	148	156	160	223	183	132	225	183
Title I, P.L. 480 principal and interest repayments on dollar credit sales	---	---	---	2	5	27	39	60	43
Mutual Security (AID) foreign currencies used by U.S. agencies	16	15	2	1	---	2	---	---	---
Export-Import Bank principal and interest dollar repayments	33	31	29	8	---	---	---	47	68
Total agricultural dollar earnings, actual plus realized dollar returns on noncommercial exports	3,625	3,763	3,801	4,217	4,948	5,081	5,647	5,393	5,277
Less: Agricultural imports	3,894	3,756	3,898	4,044	4,090	4,087	4,491	4,452	5,028
Net contribution to the balance of pay- ments attributable to agricultural merchandise trade	-269	7	-97	173	858	994	1,156	941	249
---Zero or less than \$500,000.									

Source: Based on data from Commodity Credit Corporation, Export-Import Bank, and the Office of Business Economics, U.S. Department of Commerce.

Table 10.--Agriculture's contribution to the U.S. balance of payments, by quarters, 1967-68

Item	1967								1968							
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
	-----Million U.S. dollars-----															
Commercial agricultural exports	1,241	1,182	1,186	1,452	1,241	1,073	1,243	1,426								
Plus: Realized dollar returns and savings on noncommercial agricultural exports	56	61	106	109	78	73	65	78								
Title I, P.L. 480, foreign currencies used by U.S. agencies	43	46	88	48	39	49	48	47								
Title I, P.L. 480 principal and interest repayments on dollar credit sales	13	15	4	28	11	10	6	16								
Mutual Security (AID) foreign currencies used by U.S. agencies	---	---	---	---	---	---	---	---								
Export-Import Bank principal and interest dollar repayments	---	---	14	33	28	14	11	15								
Total agricultural dollar earnings, actual plus realized dollar returns on noncommercial exports	1,297	1,243	1,292	1,561	1,319	1,146	1,308	1,504								
Less: Agricultural imports	1,180	1,064	1,064	1,144	1,187	1,261	1,344	1,236								
Net contribution to the balance of payments attributable to agricultural merchandise trade	117	179	228	417	132	-115	-36	268								

---Zero or less than \$500,000.

Source: Same as in table 9.

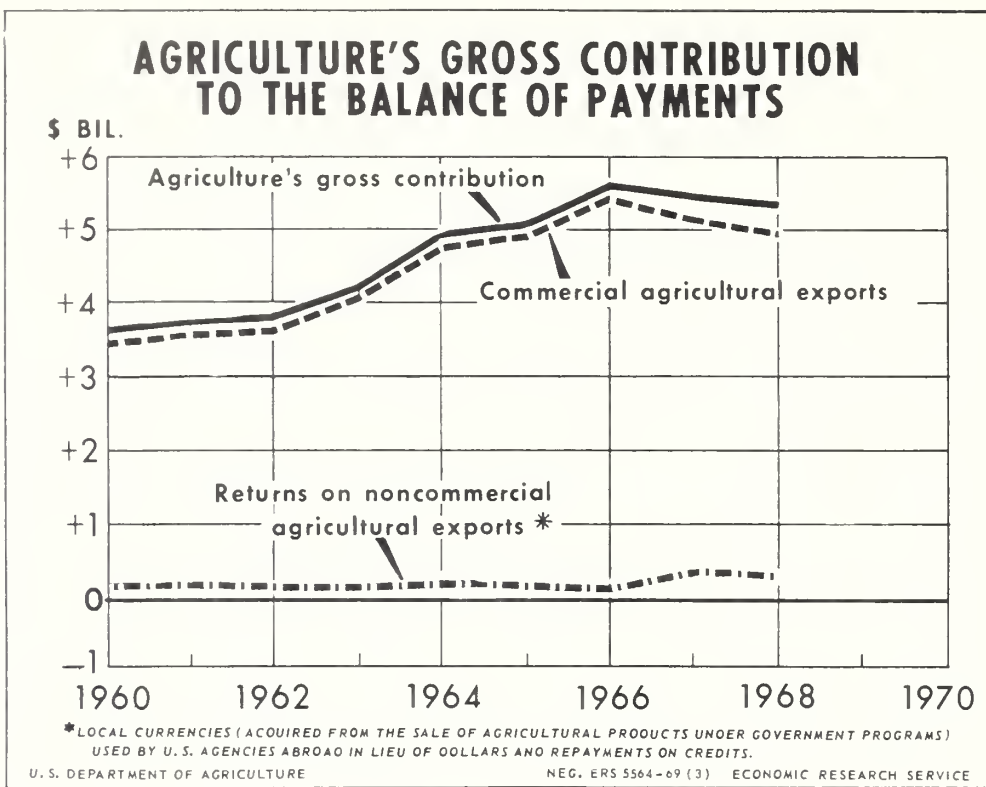


Figure 3

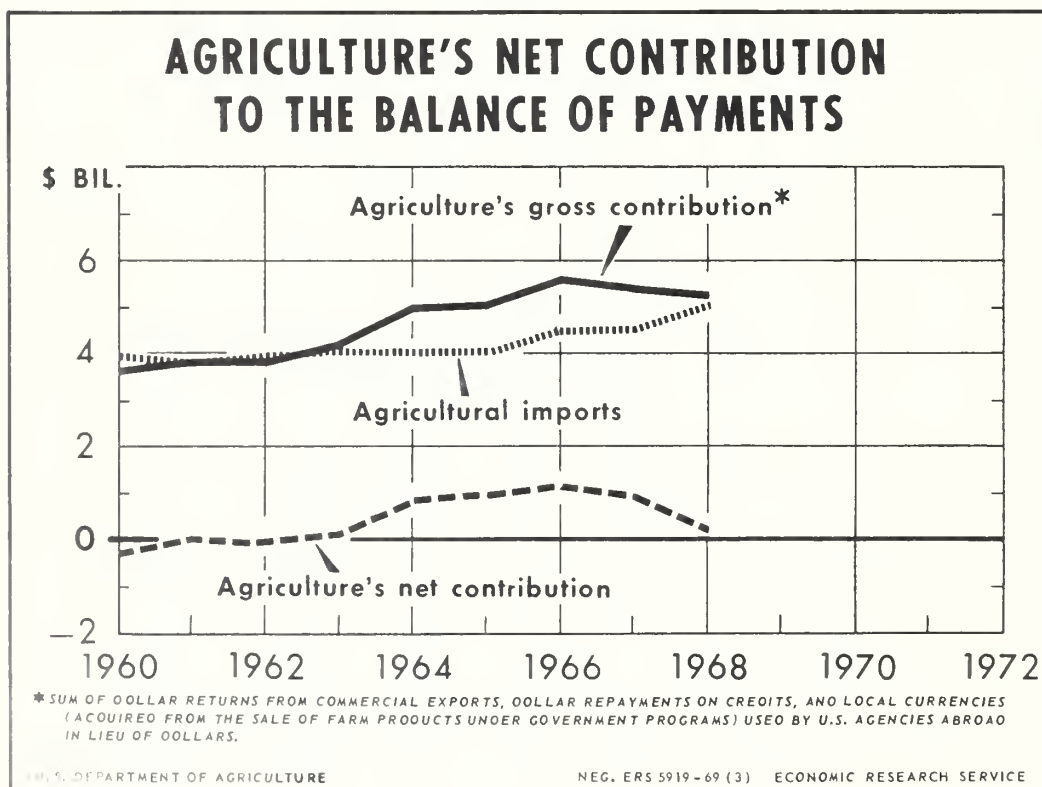


Figure 4

Of our \$6.2 billion of agricultural exports in 1968, the major commodities were grains and preparations, \$2.6 billion; oilseeds, \$0.9 billion; tobacco and cotton, each \$0.5 billion. When talking about agricultural imports, it is customary to divide them between supplementary and complementary, the former being products which compete with domestically produced items and the latter comprised of products which we do not produce in any significant amount such as coffee and tea. In 1968, of the \$5.0 billion of imports, \$3.0 billion was supplementary and \$2.0 billion complementary. The major supplementary imports were meats and poultry, \$0.7 billion; sugar, \$0.6 billion; and fruits and vegetables, \$0.4 billion. Major complementary imports were green coffee, \$1.1 billion; and bananas and crude rubber, each \$0.2 billion.

Our largest export market in 1968 was Japan which bought over \$900 million of U.S. agricultural products. The next two largest were Canada and the Netherlands, taking \$600 and \$500 million, respectively. However, these figures include sizable amounts of transshipments.

Table 11.--U.S. balance of payments,
1965-68

Period	Balance on liquidity basis	Balance on official reserve transactions basis
: ---Million dollars---		
1965 ...:	-1,335	-1,289
1966 ...:	-1,357	266
1967 ...:	-3,571	-3,405
1968 ...:	158	1,617
1967 I :	-238	-1,279
II :	-220	-705
III:	-1,212	-25
IV :	-1,901	-1,396
1968 I :	-262	90
II :	73	1,563
III:	-433	73
IV :	780	-109

Source: Department of Commerce, Survey of Current Business, June 1968 and March 1969.

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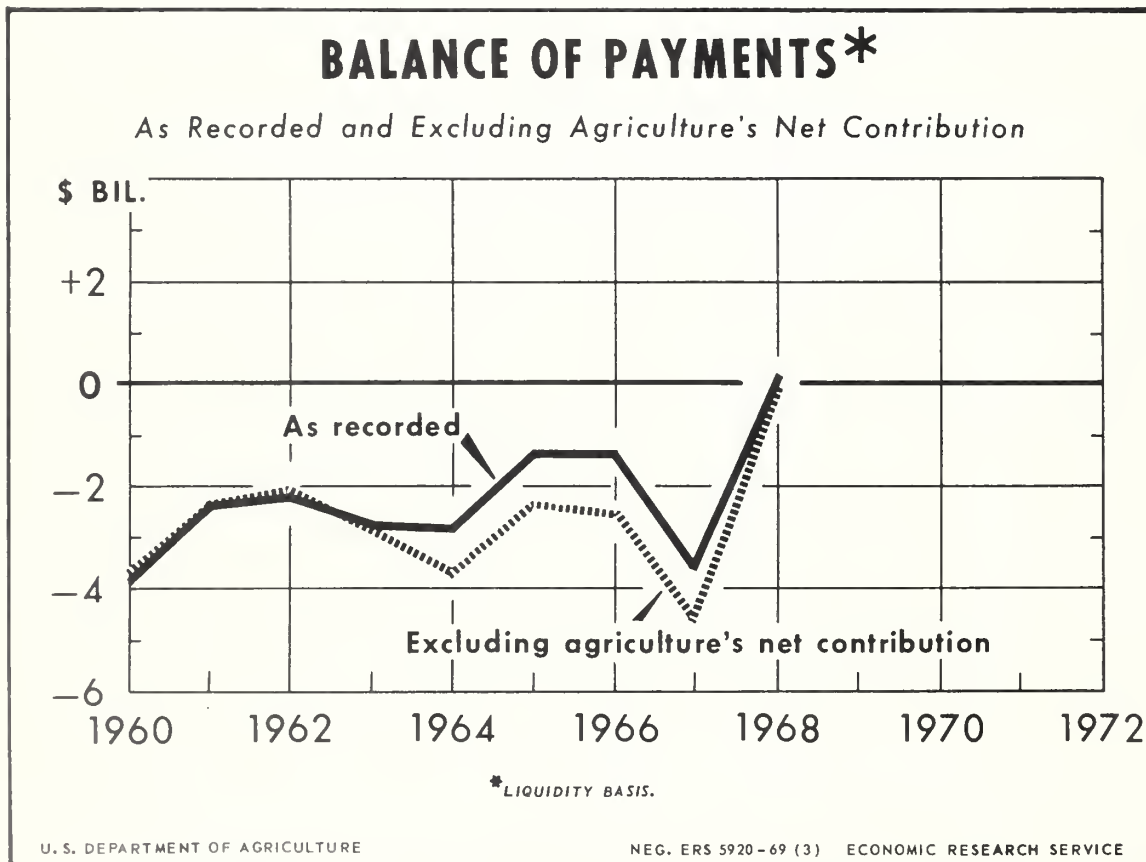


Figure 5